NIE Networks
RP7 Price Control

Manufacturing NI
Response

22 March, 2024

MANUFACTURINGNI

Introduction

Manufacturing NI represent some 550 manufacturing businesses across every constituency represented in the NI Assembly.

Manufacturing represents around c14% of local GDP and approximately 11% of total employment. With around 70% of manufacturing taking place outside of Belfast, it's impact on local economies is more pronounced with, for instance, half of jobs in Mid Ulster and 4 in 10 jobs in Mid and East Antrim and Armagh, Banbridge and Craigavon Council areas depend on the sector.

The regional economy, particularly outside of Belfast, is the manufacturing economy.

The aims of the Executive for good jobs which are regionally balanced are already being delivered by the sector. If we are to secure the ambitions to also be more productive and decarbonised, then the right environment needs to be secured.

Economic Background

The following summary is from work undertaken by a local economist in support of our submission. This full economic impact of the sector will be published in Spring to launch Manufacturing Month.

> **Manufacturing is a large contributor to the local economy.** At just over £6bn, it accounts for 13.4% of local economic output compared to a UK figure of 9.8%. Manufacturing is the second largest sector in terms of its economic contribution after Retail and Wholesale (15.3%). Northern Ireland has one of the largest shares of Manufacturing enterprises in its business base across the UK regions. **While it accounts for just 6% of the total private sector business population, it contributes 17% of jobs and 21% of turnover**.
>
> **Manufacturing directly accounted for almost 100,000 jobs in 2023 (96,739) or 1 in 10 workforce jobs across Northern Ireland (10.5% vs. 7.1% UK).** It is the second largest private sector employer in after Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles and second largest in terms of its share of turnover. One in five of Northern Ireland's largest enterprises (250+ employees) are Manufacturers.

Manufacturing supports jobs and economic growth across rural and urban areas alike. The Manufacturing sector plays a part in every local Council economy across NI. Mid Ulster has grown and continues to grow as a particular Manufacturing hub and accounts for 20% of Northern Ireland's total Manufacturing value added (GVA) and 19% of jobs. Armagh City, Banbridge and Craigavon accounts for a further 14% and Belfast 12% while in other Councils like Derry, Fermanagh, Causeway and Newry & Mourne accounts for almost one tenth of GVA.

The impact of the manufacturing sector is strongly felt throughout the economy. The sectors contribution extends well beyond direct jobs, economic activity, and wages. There is an additional indirect impact which from the activity and employment supported in the supply chain because of the sector's procurement of goods and services from other parts of the economy. In addition, there is a further induced impact, comprising the economic benefits that arise as the people employed in the manufacturing sector and its supply chain spending their wages in the local consumer economy, for example at retail and leisure.

Estimates suggest that every £1million GVA that the Manufacturing sector in generates, a further £0.7million is indirectly generated elsewhere in the economy rising to £1.7million of additional value supported in the wider economy through indirect and induced effects.

Including all three channels of economic impact—direct, indirect, and induced—**the total contribution of manufacturing to the Northern Ireland economy is over £16 billion.**

In total, it is estimated that the sector sustains around 250,000 jobs: amounting to a quarter of all jobs in the economy. For every manufacturing job another 1.7 are supported elsewhere in the economy.

By sustaining this level of employment, manufacturing **directly contributes more than £2.9 billion in wages** to its own staff, and **a further £2.3billion in wages through jobs supported through its supply chain and £0.9bn through induced effects**.

96% are SME's, almost exclusively homegrown, with their share of turnover rising from 19% in 2015 to 23% to in 2023. The sector is overwhelmingly made up of local entrepreneurs, who need nurtured to continue to support a wage to **'hard working families'**, in every urban and rural area.

Whilst 1% of manufacturers are large (more than 250 employees), they account for almost half of employment and more than half of turnover. **Largely manufacturing primaries, these firms are highly sensitive to economic shocks and global cost competition making them mobile.**

The manufacturing sector's impact goes well beyond its immediate or core economic impact. Wide-ranging benefits are created for the Northern Ireland economy as its activities boost economic activity elsewhere in the economy.

For example:

The sector ranked second highest (after Wholesale and Retail) in terms of its contribution to **Salaries and Wages (£2.89bn) and Net Capital Expenditure (£0.45bn)**.

Our Manufacturing sector is the region's most significant exporter. **It accounts for around half (47%) of external sales outside Northern Ireland and similarly around half (51%) of export sales** (outside the UK). It accounts for two-thirds of Northern Ireland's goods exports and accounts for 10% of the region's service exports.

The sector made **£13.7bn in external sales in 2022 and £6.8bn in export sales**.

Manufacturing has **the largest trade balance (at £3bn in 2022) across local industries by a considerable margin** highlighting its importance as the key net exporter of goods and services.

Manufacturing accounts for just under **two-fifths (37%) or £327.3m of all business R&D (BERD) spending**. This helps to support the development of quality products and processes to keep the sector competitive.

Manufacturers made up **almost half of the investment (47%) by Invest NI supported businesses** over the period 2018/19 to 2022/23. Five of Invest NI's Top 10 investors over the that period are Manufacturers. Northern Ireland's highest inward FDI position, is in Manufacturing. ONS figures suggest that in 2021 **37.3% of NI's FDI was in Manufacturing, more than twice the UK average share**. The Manufacturing sector is also a strong contributor to net earnings for FDI.

There are, however, areas for concern including:

In the period 2016 to 2021 NI Manufacturing output experienced the slowest growth across the UK nations, growing by 12.2% over that 5-year period compared to as high as 20.5% in Wales. Between 2016 and 2018 We lost two large Manufacturers, JTI and Michelin, with the loss of almost 1,700 jobs.

Although there has been a notable increase in employment costs as a share of turnover, up from 13% in 2008 to 20% in 2021. Employment costs are a considerably higher share of turnover for our manufacturers compared to other UK nations.

Of concern is that in the last year, the number of micro-enterprises in the Manufacturing sector with less than 10 employees has fallen by 100.

Input costs are higher and shocks more pronounced given factors such as scale and geography over competitors in other parts of the UK and global averages.

We are the least productive region in terms of output per job relative to the UK. Manufacturing Output per Job is 78.5% of the UK average. With a striking deterioration in relative Output Per Job since 2017.

Submission

Our response is accompanied by a deep economic analysis with updated statistics first published on behalf of MNI by Oxford Economics in 2017. Whilst almost 7 years have passed since this initial analysis, the general thread remains the same – manufacturing is critical to the NI economy, when manufacturing grows, the entire economy grows with it.

This analysis, alongside our suggestions on ways to improve the economic environment which could lead to increasing wealth and work, remains contemporary and is available here: [Oxford Economics Manufacturing Report]

This report has been updated and some findings are included to inform this submission. This updated report will be published in late Spring.

Rebuilding the economy, particularly post Covid, remains the high priority for the UK Government and our new Executive as evidenced in the Department for the Economy's 10x Strategy. Advanced manufacturing and life sciences are picked out as priority areas.

Given the outcome of the Lyons review into Invest NI, it is also clear that economic development at a sub-regional and local council area is also to be prioritised.

Our new Economy Minister is focussed on regional dispersion of economic opportunity.

The regional economy and communities, outside of Belfast, is hugely dependent on manufacturing. To meet the Minister's (and the Executive's) aims, we must ensure a competitive place for our makers.

Elsewhere in local policy there are priorities relating to increasing the competitiveness and productivity in food production.

All this leads to a clear focus on areas which add greatest value – the multiplier – creating conditions to create wealth and work throughout Northern Ireland. Indeed, the new Economy Minister and Finance Minister have explicitly referenced that this is a priority for them, for their party and as such the Executive.

In addition, our post-Brexit settlement means that the future 'sweet spot' for FDI investment and trade growth will be in manufacturing and distribution to capitalise on our 'dual market' opportunity – selling more to the EU and to the rest of the UK and in turn generating more external income which will drive wealth into communities across NI.

To be successful, we must secure our economic competitiveness – for local makers and FDI investors. It must be about narrowing the gap with GB, RoI and the EU and holding on to advantages which make us an attractive location to attract capital.

As evidenced in the accompanying economic analysis of our sector, and later in this document, the cost of doing business here is consistently higher than the UK and globally with peaks more pronounced with issues such as energy prices and logistics weighing more heavily on local producers versus competitors elsewhere.

We are already at a competitiveness disadvantage.

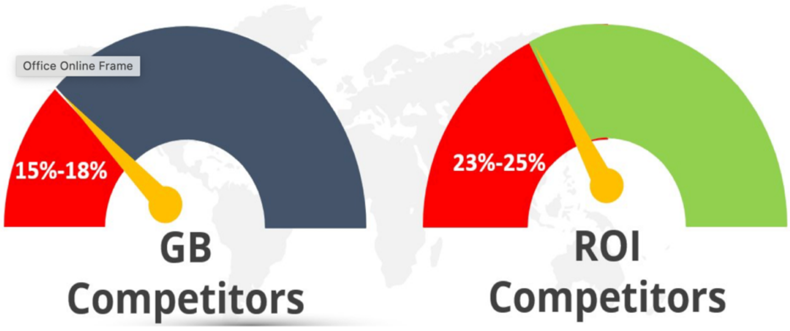
There are huge challenges in securing labour. NI currently has effectively full employment (with some sub-regional areas in labour deficit).

Delivery on providing a skilled labour market is not working resulting in damaged economic performance. Manufacturers have had to establish (and fund) their own projects such as the MEGA Network, to meet the needs of firms at very local levels.

The Climate Change Act, by necessity, will require huge investments so firms can meet the net zero targets set by Stormont.

These issues, combined with a drive to build productivity (NI lags the rest of the UK) means that capital investments are required through automation, robotics, digitisation, and skilling and upskilling the available workforce.

Northern Ireland's Productivity Performance



Source – Invest NI

All of this requires money. Money which will not be available should energy costs unnecessarily rise and where our competitiveness position is further damaged.

Growing our manufacturing base should be a priority, but we face a huge burden of costs which **present an existential crisis** for our firms.

News in recent weeks that Glen Dimplex intends to close their Portadown factory will be very worrying for the workers involved during the redundancy consultation.

In many ways it is reminiscent of the decision by Michelin to close their Ballymena factory as it was their assessment that the **costs base across the coming decades was not attractive to secure the necessary investment**.

Whole subsections of the manufacturing community continue to be distressed. For instance, some of our primary manufacturers (1% of firms are large – more than 250 employees – but they account for almost half of jobs and more than half of turnover) continue to record significant losses. These primary's account for a large part of our exports, employment, GVA and supported jobs. As they recover, the shock of additional millions of pounds of energy costs **would jeopardise not just individual firms and an entire supply chain and sector**.

It confirms **capital can be mobile**. Our manufacturers compete globally – for customers and investment. We don't compete well on energy or labour availability and costs and given our geography we have additional logistics which other do not.

The importance of manufacturing in driving local economies

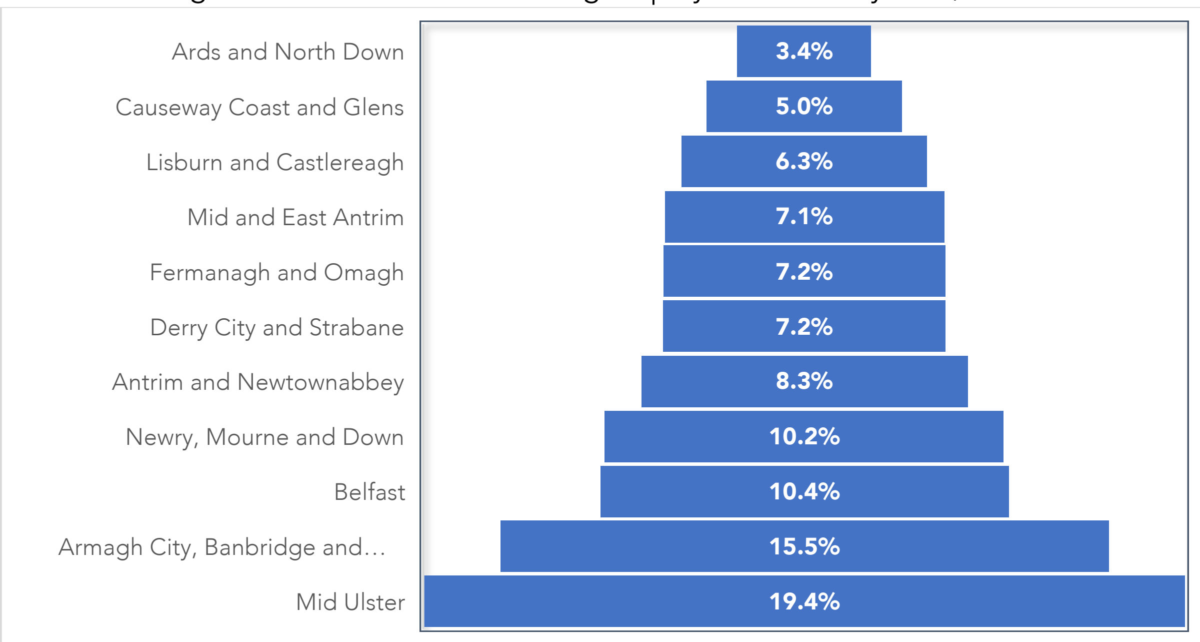
Losing manufacturers has a devasting economic impact on a region. In the M&EA Council area they assess the loss of JTI and Michelin.

Research for M&EA Council from SQW's report "Economic Impact Assessment of closures at JTI Gallaher and Michelin, 2016" shows that the *direct* employment effects of the two closures (their combined workforces and associated wages) have been estimated to be a loss of 1,700 jobs with a consequent GVA reduction of c.£183.7m – £263.5m.

Additionally, the indirect supply chain impact of the closures was estimated to cost £36m pa in Northern Ireland in lost expenditure at the two sites, £8m pa of which is from Mid and East Antrim. As a result of this reduction in expenditure, a further 230 jobs and £14.2m in GVA were estimated to be lost in Northern Ireland, with 70 of these jobs and £4m in GVA from Mid and East Antrim.

Losing manufacturing firms puts huge pressure on the rest of the local communities and economies at local and very local sub-regional levels.

Percentage share of total Manufacturing employment in NI by LGD, 2022

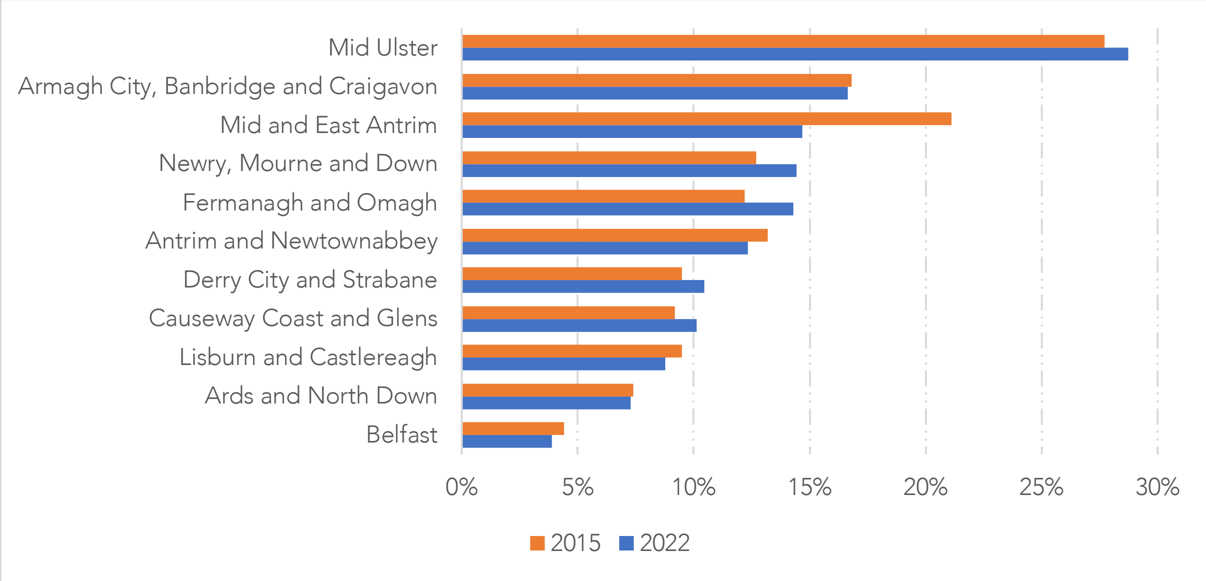


* Source - BRES, September 2022, NISRA.

The Manufacturing share of total employment has increased in five of the 11 LGDs between 2015 and 2023. Fermanagh and Omagh has seen the greatest increase at 2.1 percentage points.

The devasting impact of losing both JTI and Michelin in Mid and East Antrim Council area due to cost competitiveness concerns is very visible.

Manufacturing share of total employment by LGD, 2015 & 2022



Source: BRES, September 2015 & 2022, NISRA.

Manufacturing Multiplier Effects

The output, jobs and wages of the Manufacturing sector have significant impacts beyond their direct impacts, creating additional purchases and spending in the economy as a result. These are known as multiplier effects and take the form of:

Type I Multiplier

- the direct and indirect effects from inter industry transactions involving local purchases through the supply chain.

Type II Multiplier

- includes the consumption induced effects where wages are spent in economy.

NISRA publish Type I and II Multipliers (2019) by Industry Group. This sets out multipliers across a range of subsectors within Manufacturing but with no 'overall' multiplier for the Manufacturing sector.

As part of the economic analysis to be published in the Spring, Manufacturing multipliers have been estimated for the sector by applying the Type I and II multipliers to subsector GVA and Jobs and aggregating this data to provide total multiplier effects for the Manufacturing sector. The wages multiplier effects have been taken from previous research by Oxford Economics.

This approach provides overall estimates of Type I and Type II multipliers for Manufacturing as follows:

NI Manufacturing Multiplier Effects

	Jobs	Wages	GVA
Type 1 - Direct & Indirect	1.7	1.8	1.7
Type II - Direct, Indirect & Induced	2.6	2.1	2.7

*Source: Author Estimates using NISRA Multipliers, Oxford Economics

This research estimates that the Manufacturing GVA Type I Multiplier is 1.7 (see below) and Type II Multiplier of 2.7. This means that Manufacturing has the 3rd highest multiplier impact across Northern Ireland industries and is strongest in the context of the importance of the sector to the NI economy.

Every £1million GVA that the Manufacturing sector in Northern Ireland generates, a further £0.7m is indirectly generated elsewhere in the economy. Every £1million GVA that the manufacturing sector generates, a further £1.7m of value is supported in the wider economy through indirect and induced effects.

Top 3 Industry GVA Type I – Indirect Multiplier Effects in Northern Ireland

	GVA Type I Multiplier	Direct GVA Contribution (2021 £m)	% of NI GVA 2021
1. Agriculture (Crop & Animal Production, Hunting & Related Services)	2.2	£907	2%
2. Construction	1.8	£3,384	7%
3. Manufacturing (estimated)	1.7	£6,109	13%

*Source - ONS, NISRA, Estimates

Manufacturing subsectors have amongst the highest multiplier effects across the NI economy, both Type I and Type II. The Food and Other Transport Equipment sectors within Manufacturing have the highest GVA Multiplier effects across all industries in the NI economy. The Advanced Manufacturing sector also has strong multiplier effects including Electrical and Machinery Equipment and Pharma.

Taking multiplier effects into account, this suggests that our sector ***supports just over £16bn in value added to the Northern Ireland economy, £6bn in wages and around 250,000 jobs.***

Manufacturing Impact on the Northern Ireland Economy

	Jobs (2023)	**Wages £m (2021)**	**GVA £m (2021)**
Direct	96,739	£2,890	£6,109
Indirect	67,717	£2,312	£4,276
Induced	87,065	£867	£6,109
Manufacturing Impact on NI Economy	**251,521**	**£6,069**	**£16,494**

*Source - NISRA, ONS, Research Estimates

Reviewing other evidence on the Multiplier effects of Manufacturing highlights that:

- For every £1 million that the manufacturing sector contributes to UK GDP itself, a further £1.5 million is supported across the wider economy through indirect and induced multiplier effects.

  On the same basis, manufacturing supported a total of 7.4 million jobs in 2016. For each job in the manufacturing sector itself, a further 1.8 are supported in other sectors of the UK economy (The True Impact of Manufacturing, Oxford Economics 2018).

- For every £1 in GVA generated in engineering sectors, a further £1.45 is generated elsewhere within the economy. This GVA multiplier is 2.45 once indirect and induced multiplier impacts are taken into consideration.

  For every one FTE employed in engineering sectors, employment of a further 1.74 FTEs is estimated to be supported within the UK economy, representing a multiplier of 2.74. This means than for every new engineering vacancy that is filled, 1.7 new jobs can be expected to be supported throughout the economy.

Trade

In 2022, manufacturers generated £18.9bn in trade of which £17.8bn was in goods and just over £1bn in services. The sector sells almost three-quarters of its goods and services outside of NI and exports 36% of the total.

Manufacturing Trade 2022 (£m)

	Goods	Services	All Transactions
All Countries	£17,800	£1,065	£18,864
External Sales (outside NI)	£13,096	£637	£13,733
Exports (outside UK)	£6,473	£352	£6,825
% Sold Externally	**74%**	**60%**	**73%**
% Exported	**36%**	**33%**	**36%**

*Source: NI Economic Trade Statistics

The manufacturing sector is the region's most significant exporter. It accounts for around half (47%) of external sales outside Northern Ireland and similarly around half (51%) of export sales (outside the UK).

It accounts for two-thirds of Northern Ireland's goods exports and accounts for 10% of the region's service exports.

Manufacturing Share of Northern Ireland Trade (% 2022)

	All Transactions	Goods	Services
All Countries	22%	32%	4%
External Sales	47%	67%	7%
Export Sales	51%	65%	10%

*Source - NI Economic Trade Statistics

Manufacturing has the largest trade balance across local industries, at £3bn in 2022, by a considerable margin highlighting its importance as the key net exporter of goods and services.

Around half (51%) of the Manufacturing sector's purchases or £6.9bn was spent on purchases made within Northern Ireland in 2022.

Wages

The Executive's ambition is for now just more, but better paid jobs. As evidenced by the table below, average wages in manufacturing are rising sharply and faster than the elsewhere in the local economy.

Gross Annual Pay for Full-time employee jobs in NI Manufacturing
2017 and 2023 (nominal)

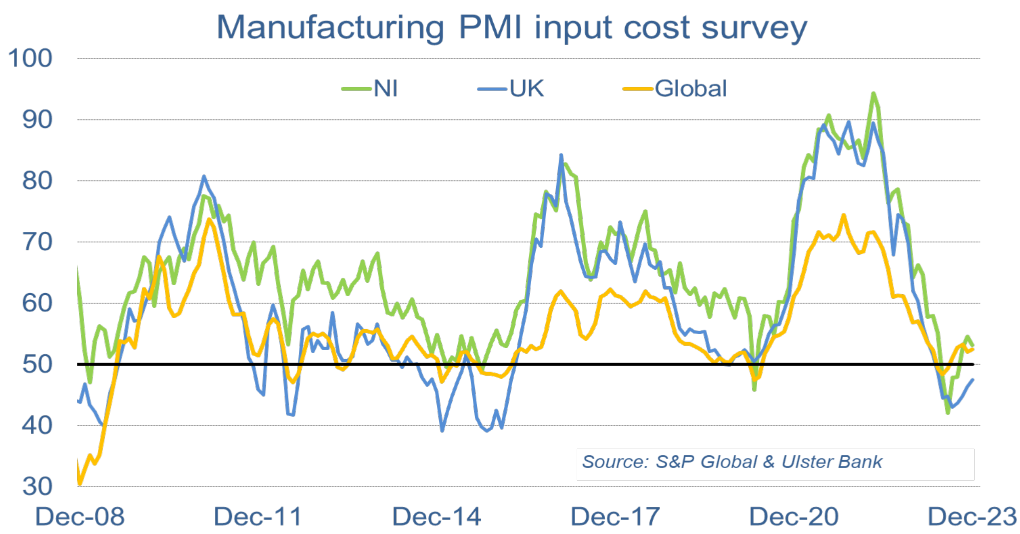
	2017 (E)	2023 (E)	% Change
Manufacture of other transport equipment	£30,081	£42,232	**40.4%**
Manufacture of machinery and equipment n.e.c.	£26,977	£35,894	**33.1%**
Manufacture of basic pharmaceutical products and pharmaceutical preparations	£22,859	£32,420	**41.8%**
Manufacture of chemicals and chemical products	-	£30,378	**-**
Manufacture of fabricated metal products, except machinery and equipment	-	£30,238	**-**
Manufacture of motor vehicles, trailers, and semi-trailers	£24,173	£29,958	**23.9%**
Manufacture of rubber and plastic products	£28,563	£28,783	**0.8%**
Manufacture of food products	£19,096	£28,113	**47.2%**
Printing and reproduction of recorded media	£22,672	£26,289	**16.0%**
Manufacture of basic metals	-	£25,080	**-**
Manufacture of furniture	£18,277	£23,601	**29.1%**
Manufacture of wearing apparel	-	£20,516	**-**
Manufacture of computer, electronic and optical products	£29,503	-	**-**
Manufacture of other non-metallic mineral products	£24,980	-	**-**
Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	£19,536	-	**-**
All Manufacturing	**£24,146**	**£31,071**	**28.7%**
All employees	**£25,935**	**£32,879**	**26.8%**

*Source - ASHE, 2017 and ASHE 2023, NISRA. Note: - no data available as the estimates are considered disclosive or unreliable.

The cost of doing business

Input Costs

Manufacturers are acutely impacted by costs and complexities. Adding to their burden increases their likelihood to fail and the resulting economic impact felt throughout the economy. Being at the beginning and end of every supply chain has meant that our firms consistently endure a significantly higher increases in input costs over both global and UK trends as evidence by the Ulster Bank PMI numbers opposite.



**Source – Ulster Bank PMIs*

Energy costs, market scale, productivity performance, additional logistics costs, a skills deficit, additional regulatory burdens all add to the additional costs of doing business here over other locations.

This will be further impacted by policy adding compulsory costs on wages – Apprenticeship Levy, National Living Wage – narrowing any cost advantage currently achieved in this area.

Indeed, the latest NI Chamber of Commerce Quarterly Economic Survey shows that "*Rising labour costs is now the dominant pressure driving pressure to raise prices, affecting 92% of manufacturers in Q4 23.*"

The Chamber further report that "*Inflation continues to affect around 3 in 5 manufacturers (57%), down from a significant 92% in the same quarter last year. More than twice as many manufacturers are concerned about competition in Q4 23 compared to a year ago (42% Q4 23 vs. 20% Q4 22)*".

We're still very much in high inflation territory.

The Annual Business Survey provides detail on turnover, GVA, goods & materials and employment costs for the non-financial business economy by UK region. The most recent release provides data for 2008 to 2021.

Goods & Material Purchases make up a high share of turnover for NI Manufacturers, 71% compared to 67% for the UK.

These costs are higher for Welsh Manufacturers at 73% but the share of turnover taken up by goods & materials costs are considerably higher for Northern Ireland Manufacturers than their England (61%) or Scottish (62%) counterparts.

Employment costs are a considerably higher share of turnover for Northern Ireland Manufacturers compared to other UK nations. Employment costs are 20% of turnover compared to a UK figure of 17% and as low as 13% for Wales.

We have the second highest employment costs share across all UK regions.

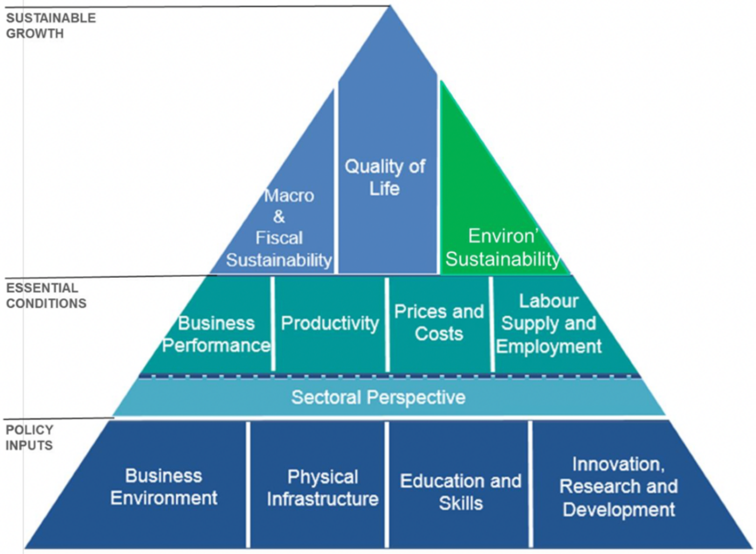
Share of Manufacturing Turnover (2021)

	GVA %	**Goods & Materials Purchases %**	**Employment Costs %**
NI	31%	71%	20%
UK	32%	67%	17%
England	32%	61%	17%
Scotland	39%	62%	18%
Wales	27%	73%	13%

**Source – ONS Annual Business Survey*

There has been a significant increase in goods and materials purchases costs for the Manufacturing sector, up from 52% of turnover in 2008 to 71% in 2021. Similarly, there has been a notable increase in employment costs as a share of turnover, up from 13% in 2008 to 20% in 2021.

Ulster University's Economic Policy Centre produced a report in December 2020 for the Department for the Economy to assess NI's competitive position – both for homegrown and FDI investment.



Source: UUEPC

They usefully summarise the factors required for the right investment and business performance environment.

The report UUEPC report demonstrates that NI's businesses, particularly manufacturers, suffer a poor competitive environment. Essential conditions, including Prices and Costs did not exist then (in December 2020) and have deteriorated since.

This report was presented to the Executive so they could make policy choices to improve our competitive position, not undermine it further.

Summary of decile placements for prices and costs

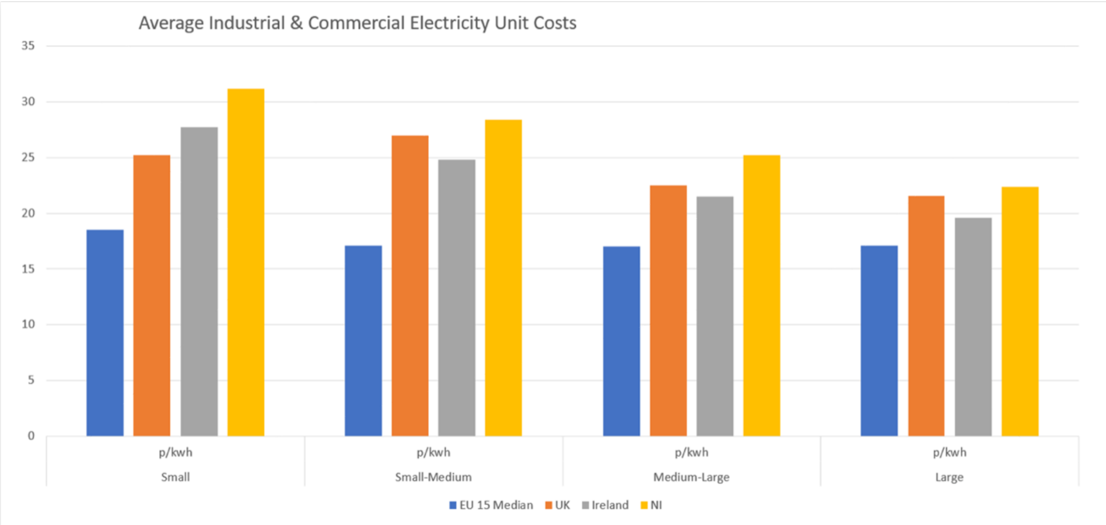
Source: UUEPC
Note: 1 is the most competitive and 10 the least competitive position on the spider diagram.

Full report here: [UUEPC Competitiveness Scorecard]

Energy Prices

Manufacturers are amongst the largest energy users and (whilst not available from the Utility Regulator) they likely consume more electricity than all other sectors.

They endure the highest electricity prices in Europe.



Source – Invest NI Green Economy team.

But it is not just prices now but prices well into the future. The Utility Regulator is consulting on their draft determination of the Price Control of NIE Networks (RP7). Their plan calls for a £3bn investment of consumers money into the electricity distribution network to meet local net zero targets.

The Regulator's own assessment of the impact this will have on consumers bills is that whilst domestic consumers would see a reduction in network element of their bill, it will be left of business (particularly large energy users, the group dominated by manufacturers) to pick up the bill.

"Just transition" appears to mean that just business will pay for it. This is completely unacceptable, counterproductive, and unfair.

Customer Group	Typical MWh/a	UR Draft determination			
		24/25	30/31	Delta (£)	Delta (%)
Domestic	3.4	173	170	**-3**	-2%
Small Business	16.4	718	742	**24**	3%
SME, LV	275	10762	11419	**657**	6%
SME, HV	1,593	38848	42242	**3394**	9%
LEU, HV	5,457	98095	108956	**10861**	11%
LEU, 33kV	31,075	295809	353044	**57235**	19%

Source – Utility Regulator's Draft RP7 Determination RP7 Draft Determination

Large energy users pick up a huge part of the fixed costs of our energy system. Transmission and Distribution costs, market services etc. Having large loads also helps balance the network and leads to a more efficient wholesale market.

Losing a large manufacturer, as evidenced by losing Michelin and JTI, means that these costs are picked up by all other consumers – business and domestic. As a case in point, losing Michelin resulted in £1m of gas conveyancing costs (paying for capital infrastructure put into the ground) having to be borne by the remaining gas consumers in the Ten Towns area (Ballymena through Derry to Strabane).

Brexit Impact

GB continues (and will always be) a critical part of our supply chain. However, unlike businesses in GB, there are costs and barriers to Northern Ireland's participation within the UK's Internal Market.

The improvements to the operation of the NI Protocol in the Windsor Framework and subsequently in work which led to the return of the NI Executive have little benefit for most manufacturers. Their inputs from GB are still considered as "at risk" of entering the EU. This means they would not benefit from the "UK Internal Market Lane" and will have to 'red lane' goods – in return picking up additional costs.

These costs will be more visible once customs easements end (for instance on B2B parcels) on 1 October 2024.

Whilst some of this cost is supported by the UK Government providing the Trader Support Service, there are unavoidable costs including staff time, customs clearances and additional transportation costs which are endured by local firms.

Specific Outcomes from the Draft RP7 Determination

The following is some comment on specific details raised in the Draft Determination from the Regulator:

RP6 OPEX Performance

The 9.6% efficiency performance not only justifies the inclusion of a 50/50 sharing mechanism in RP6 but could also demonstrate that OPEX costs were significantly over-priced in the business plan which led to the final RP6 determination. It should signal that the Regulator pay significant attention to costs provided in RP7 to ensure that consumers, from the beginning, are getting best value and that no incentive is 'baked in' which would see (even when shared 50/50) consumers overpaying for these services.

RP6 CAPEX Performance

It is extremely disappointing that NIEN have significantly under-performed in the delivery of the RP6 CAPEX plans. All parts of business, particularly manufacturers, were significantly impacted by Covid disruptions but unlike NIEN not all were considered essential businesses so not could continue business as usual. Supply chain disruptions were faced by all, but elsewhere in business they were largely quickly overcome and business as usual achieved in what appears a much quicker pace than NIEN.

The delays have economically harmed consumers looking to NIEN to help them connect to its network, particularly for decarbonisation projects. Unacceptable delays in delivering on RP6 CAPEX will now also result in unacceptable additional costs for consumers.

Whilst the data is not currently available to us, it is assumed that across various Price Controls that the company has not delivered on time on CAPEX projects with these then passing through to subsequent price controls. We would ask the Regulator to consider past performance as an indicator of future performance and put in place a mechanism which protect consumers for the additional costs of delay (including but not exclusively limited to inflationary rises).

Given that we are all told this Price Control (and the next) are critical to deliver on climate change, we would ask what the Regulator is doing to ensure that CAPEX target delivery dates are met?

The company assumes that CAPEX costs have a resulting increase in OPEX costs too. Getting both numbers as accurate as possible is critical for consumers to ensure they are not over-paying or over rewarding the company.

Electricity Units Distributed

There continues to be a continuing trend of a significant difference between what NIEN (and SONI) anticipate electricity demand is and will be to what is consumed. Whilst questions are required about how these forecasts are constructed, we are concerned that future demand is used as a justification or basis for investments in the network. This could result in unnecessary investments or at best investments poorly timed.

In our view there are grandiose assumptions in RP7 on the uptake of low carbon technologies, including heat pumps, particularly for domestic consumers. Given the costs of energy and mandatory targets in the CCA for industry, we would suggest that consumption assumptions are not accurate.

We do not that that "closely monitoring" this is sufficient. An intervention is required.

Pensions

We agree with the UR that the company should be transparent and agile in informing them when their historic pensions deficit is removed, and the scheme moves into surplus.

Other Costs

We agree that costs associated with adverse weather events should continue to be subject to the 50/50 mechanism and that there is no justification for a 44% increase in allowances for these.

On business rates, the actual figure for 2024/25 will now be available and should be used. It should also be noted however that in the Mid and East Antrim Council area there was a significant rise in the regional rate poundage as Kilroot was being refurbished and not contributing to business rates. This Power Station is now fully back in operation. As a result, business rates (for this council area at least) will see significant movements from 1 April 2025 onwards.

Direct Network Investment

Without understanding the full picture of what these investments are for, it is clear from the charts presented in the Draft Determination that on the Distribution investments, c50% of these capital costs are to facilitate 'net zero'. Elsewhere in the determination the regulator assesses that only business will see the network element of bills rise because of these investments.

This is unacceptable and unfair.

As a result, we do not support any of these investments as currently determined. Better, fairer balance is required between customer groups as a minimum. The regulator, simultaneously to concluding RP7 to a Final Determination, must urgently review charging mechanisms to deliver a fair and competitive outcome across all consumer groups.

Productivity Change

We believe that the proposed 1% productivity improvement does not meet improvements seen elsewhere in the economy. In addition, the clear stated aim of the Economy Minister is to drive productivity through the economy to narrow the hugely significant gap between NI and the rest of the UK and indeed Ireland (ultimately NIEN's owner). It would be our view that the Regulator should insist on a more stretching productivity improvement by the company.

Meter Services and Reading

A point of clarification is required here. Do non-domestic account holders pay for meter services and reading of domestic and smaller commercial electricity users as part of their tariff? If so, why? In addition, do meter readers perform other tasks on behalf of the company?

Innovation

Some of the proposed additional costs in this area are in our view 'business as usual' type investments. We support the Draft Determination outcomes on innovation projects and the mechanism to re-open when affordable and identifiably beneficial projects are presented.

Incentives

We support the Draft Determination proposals in this area.

Consumer Measures and Consumer Engagement

It should be recorded that there has been a cultural shift within the company and that this is reflected in better relationships between customer/consumer and the business. This cultural change is recognised by Manufacturing NI. More work is always required in this area by all regulated companies to move away from "the answer is no, now what is your question". We accept that this is not always easy and requires an attitudinal change not just by the leadership of utilities but right down into every aspect and interaction with the businesses.

Not all customers are equal when it comes to their knowledge and experience. We would encourage the UR to consider this when assessing the company's performance (and reward) in this area.

Network Losses

We do not find it acceptable that there is a network loss of 7.4% in the last reported year but further, it is unclear what mechanisms the Regulator is putting in place to ensure a more efficient outcome for consumers in this area.

Regulatory Asset Base

NIEN are not the only people to be investing in our electricity network. Consumers are also making significant investments with their own money, yet it appears these investments are added to the NIEN RAB which they make a return on.
We would ask the Regulator to consider, given that private investment in this area is escalating during the push to decarbonise industry, what way consumers can be better (financially through the tariff) protected in this area.

Cost of debt / finance

The past couple of years have seen significant, extremely damaging, interest rate rises. Whilst the UK has yet to move, elsewhere central banks have begun reducing these rates and it is forecast that the rate at which these will drop will escalate through 2024/25. We assume that the UR will consider the most contemporary analysis of these figures before concluding a WACC for RP7.

Total Revenues

Transmission revenues are forecast to increase by 73% driven almost exclusively by projects such as the North South Interconnector. We therefore welcome the Regulator's view that this "emphasises the need for careful consideration of these projects".

However, whilst there is a gentle warning in the Draft Determination, there is no proposed action here to protect consumers from these costs. It has long been a frustration that there is no consumer transparency on costs of these projects (the Interconnector being a good case in point) despite efforts to seek this transparency. This therefore gives rise to consumer concerns that investments are not affordable, or required or indeed are being driven by other interests (including financial interests of the network and system operators).

We would prefer if the UR did put some controls in place to ensure, as a minimum, transparency.

Profitability

NIEN is one of Northern Ireland's most profitable businesses. It should also be noted that NIEN pass a very significant dividend back to the Irish Government each year. In the last reported year that was a 17% dividend.

We already know that profitability increased by some £20m in the latest published accounts.

Whilst not accusing of similar behaviour, we would ask that the Regulator take note of recent controversies around Thames Water who claim they didn't pay dividends, which was true, but were taking a quasi-dividend out via significant "financing charges".

We do not see any action in the Draft Determination to ensure a fair return for the business but also for consumers.

Conclusion

As Oxford Economics report …

> *"… when manufacturing grows, the whole economy grows with it."*

However, they also caution…

> *"… reduced competitiveness of the sector puts at risk the thousands of jobs and livelihoods that the manufacturing sector supports in communities across the region."*

If we are to capture our dual market opportunity, then creating and maintaining a competitive business environment is critical.

We share the new Executive's ambitions, and the sector is the only one which can capitalise on our unique post-Brexit position of unique, dual market access. We are delivering well paid jobs, across the region and can do more.

But we are in a delicate position.

250,000 hardworking families depend on the sector being successful. Our homegrown firms dominate the manufacturing population but a small number globally mobile primaries who have built up a local SME supply chain dominate our turnover and headcount.

Both are incredibly sensitive to costs. Investors are incredibly sensitive to costs.

It is our view that any proposal which sees business, particularly large energy users disproportionately pick up the costs of RP7 would be completely counter to the ambition of the Executive and sub-regional economy by significantly undermining the economic value and jobs provided by the sector.

We are happy for this submission to be shared.

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